



Nomura Research Institute Group

NRI Sustainability Dialogue (Overview)

(The event was held at the Head Office on Wednesday, December 11, 2024)

Remarks by Investor Participants (Investor + Number): Blue Text

Remarks by NRI Management (NRI): Black Text

Page numbers in parentheses refer to the relevant sections of the Integrated Report 2024.

[Dialogue]

Investor 1: I found it inspiring that you're tackling challenging issues related to human capital. While I imagine it may not have been easy to fully express certain aspects in the top message (P06–13), I'd be interested to hear more about the thoughts behind it.

NRI: At our company, we take pride in having employees with a strong desire for growth. Many proactively pursue further learning and professional certifications to better contribute to their work and serve our clients. We believe there is a strong correlation between employee engagement and a sense of personal growth, which is why we place great importance on creating an environment where employees feel their work is meaningful and continuously developing.

One of our key characteristics is entrusting young employees with significant responsibilities early in their careers. It is common for team members in their twenties to take on the role of project leader. While this can naturally come with pressure, it also offers a strong sense of fulfillment. Throughout our long history, we have consistently embraced a culture of encouraging challenges, which has become one of our core strengths.

Investor 1: Providing insight not only into what has been achieved so far, but also into the challenges that remain and how you plan to tackle them, helps us better understand how the company is creating value through its human capital.

NRI: A key challenge is that lateral transfers are less common than upward promotions. Employees are often promoted to management positions within the same business or client segment, but when it's time to promote them to executive roles, their range of experience may be too narrow. We believe it's important to broaden their experience, even if it means arranging transfers that may initially seem forced, while also ensuring the understanding and support of our clients.

Investor 2: Regarding talent retention, NRI's workforce is highly attractive to other companies as well. What is your perspective on this?

NRI: Based on historical data, our turnover rate has remained stable, and we do not consider the current situation particularly serious. There was a period when some companies tried to recruit our DX talent, but that trend has since subsided. Going forward, we will continue making steady efforts to ensure that our employees feel that working at NRI is both meaningful and rewarding.

Investor 3: Regarding the results of the engagement survey (p. 69), what aspects are considered challenges? For example, could traditional corporate practices be contributing to the stagnation in scores? Additionally, how does the situation look when viewed more broadly across the entire group? Understanding employee engagement is crucial, especially as we look to drive growth in overseas business performance.

NRI: The engagement score represents an average at the individual level, not at the group level. Rather than pointing to a single major issue, the data suggests that to raise the score further, we need to take a more detailed and segmented approach, considering differences across all job functions and employee demographics, such as consulting and IT solutions, or employees with children vs. those without. Management must recognize the need for tailored support and attentive care based on the specific circumstances of each group. Additionally, the analytical tool currently in use is not considered a global standard. Other countries use more widely accepted engagement surveys, and current results are generally favorable. However, we believe it would be beneficial to conduct a unified, standardized survey across all regions, including overseas.

Investor 3: Are there any differences between the issues raised by the Sustainability Promotion Committee and those pointed out by the outside directors? While the governance structure appears to be well established, how effective is it in terms of execution?

NRI: Regarding materiality, we ensure alignment by discussing it thoroughly with our outside directors before making any decisions, which helps foster a shared understanding and sense of ownership. Rather than limiting discussions to the quarterly reviews, we receive comments and questions in our day-to-day discussions, particularly on topics such as promoting opportunities for women and the environmental impact of data centers, always with materiality in mind. They also occasionally share case studies from other companies, which we promptly consider for potential adoption.

Investor 4: When considering the value created by NRI, I believe that human capital and intellectual capital carry significant weight. What is your approach to visualizing investments in human capital? Other companies have begun disclosing models for enhancing human capital value, as well as correlations between non-financial indicators and PBR.

NRI: For many years, we have been exploring how investments in human capital can be linked to corporate growth. While we are not yet at the stage where we can disclose our findings,

there are several challenges involved, such as the time lag between investment and outcomes, and the tendency to view such investments through a depreciation model from a financial perspective, rather than as value-accumulating assets.

NRI: We would also like to ask everyone a question. Are there any examples from other companies that you believe are worth referring to regarding the models for enhancing corporate value through human capital? Additionally, from your perspective, do you find those cases convincing and credible?

Investor 3: One food company stands out for developing a model tailored to its characteristics. They independently identify what they believe to be relations of cause and effect and implement them throughout the organization. This approach carries meaningful value. However, any actual increase in PBR can only be validated through past performance reviews and should not be seen as a reliable predictor of future performance.

Investor 4: Another case from a systems integrator (Sier) focuses specifically on human capital. They conduct detailed, case-by-case analyses, such as examining the impact of increasing remote work from three to four days a week. This approach is both interesting and potentially insightful.

Investor 5: Some companies are not only utilizing internal data but are also incorporating external data in their analysis. This gives the impression of a well-thought-out approach.

Investor 6: It is crucial to explore what factors most significantly impact ROE and PBR. By shifting our perspective, we could consider analyzing past instances when stock prices experienced increases to identify potential insights.

NRI: I understand that aligning the qualitative relations of cause and effect shown in the growth cycle with the scale of investment in an organic manner would enhance the overall sense of conviction. I would like to take on this challenge moving forward.

Investor 6: NRI is home to many talented individuals, however, there appear to be areas where value creation driven by human capital is functioning effectively and others where it is not. The challenges faced in overseas operations may fall into the latter category. How do you distinguish between these cases, and more importantly, how do you plan to drive value creation in areas where it is not functioning effectively?

NRI: Our human resources tend to be highly committed and energized when working on tasks that are tangible and directly in front of them. However, overseas operations present the inherent challenge of physical distance. While we place great value on a hands-on, on-site approach, we must also strengthen our ability to drive business forward in environments where that sense of tangibility is harder to achieve. As we anticipate further diversification of our business, we recognize the need for breakthroughs that enable us to drive such efforts forward effectively. In overseas markets, we have been deploying personnel from Japan to gain a stronger on-the-ground presence. However, from the perspective of our

investors, we acknowledge that the pace of growth may still appear insufficient.

In addition to the geographical distance, there are also significant differences in market structure. For instance, in many overseas markets, the role of Slers is not common, and companies often develop systems internally. Identifying common ground and finding ways to engage with a sense of hands-on ownership will be a key challenge moving forward.

Investor 7: We understand that Japanese personnel are being dispatched overseas, but what is the intent behind this initiative? It seems that the purpose has changed compared to a few years ago. However, from an outside perspective, the reasoning behind these changes is not communicated.

NRI: The purpose of dispatching Japanese personnel is not to directly operate local operations, but rather to deepen our understanding of the business and market as the parent company and to develop a tangible sense of involvement for effective management. In the past, such dispatches were intended for the former purpose. For bases acquired through M&A, we have generally refrained from sending staff from Japan and instead adopted a governance model through the board of directors. However, at present, we are increasing the frequency of mutual visits to identify potential uses for IP held in Japan and foster greater collaboration. We also invite executives from overseas offices to Tokyo for discussions and dialogue.

Investor 8: Regarding the target of a 13% female managerial position ratio (p. 60), do you consider the progress towards this goal to be on track? Additionally, while the "Opportunity Provision Rate" seems to be a reasonable indicator, I would like to understand whether opportunities are provided selectively or if they are used to promote individuals. I am interested in learning more about the details behind this approach.

NRI: Employees promoted to managerial positions typically grow by taking on responsible roles within our business and projects. Therefore, the opportunity provision rate is used as an indicator to measure the readiness for managerial roles. Based on this concept, "opportunity provision" involves defining key roles and responsibilities of each team, and then assessing whether individuals are fulfilling them.

At present, progress is considered steady, although it is not an easy task and is being pursued with considerable effort. The timing of opportunity allocation and promotion to managerial positions often coincides with the period when employees are raising children. While it is difficult to predict the situation ten years from now, in the current generation, the societal burden of childcare still disproportionately falls on women. As a result, we are taking measures such as offering opportunities in smaller organizations and enhancing support systems to reduce psychological uncertainties, thus facilitating opportunity allocation and managerial promotions.

Additionally, visualizing opportunity allocation encourages managers to focus on talent

development. This applies to both men and women, as managers must consider how to nurture each employee based on their characteristics and identify the appropriate opportunities for their growth.

Investor 9: There are likely many individuals who aspire to excel as players, but how many are interested in taking on a management role? How is the talent portfolio structured from a succession planning perspective?

NRI: Since introducing our new personnel system three years ago, we have adopted a dual-track structure that separates managerial and professional career paths. Currently, there are more individuals in the management track. While many employees prefer to stay in a hands-on role, as their careers advance, the number of those who take on both roles (player-managers) or aim to do so increases.

Investor 9: With a growing focus on management, horizontal transfers may become easier than before.

NRI: Due to the strong client relationships our employees maintain, there has been a tendency among senior management, including department heads and executives, to avoid taking risks, which has made lateral transfers within the organization challenging. However, we have recently started actively encouraging these changes, even if it requires some push. Additionally, for managerial roles, we plan to gradually expand the span of control, such as increasing the number of subordinates managed from 30 to 50. This approach will eventually contribute to succession planning. Moving forward, we aim to make these decisions with greater attention to each individual's unique strengths and characteristics.

Investor 10: The sustainability efforts of NRI are visible at the executive level, but it is less transparent how the Board of Directors evaluates these efforts from an outside perspective. Do you plan to provide more detailed information regarding the mechanism of sustainability-linked stock compensation moving forward?

NRI: At the Board of Directors meetings, in-depth discussions are held on topics such as how to increase the proportion of women in managerial positions. Based on these discussions, the current assessment is that the necessary actions have been executed. However, if the progress toward the established goals does not improve in the future, the matter will be escalated to the Compensation Advisory Committee. As a result, the Board is closely monitoring the progress with a strong sense of urgency.

The KPIs related to sustainability are used to evaluate these initiatives. After the executive team conducts an initial review of the Sustainability Committee, the Compensation Advisory Committee engages in further, more in-depth discussions to determine whether the objectives have been achieved. Outside directors are also actively involved, with a solid understanding of the initiatives.

Investor 11: What discussions led to the development of the three logic models of social impact (p. 57)? Wouldn't the model improve in clarity by considering human capital as an input on the far left?

NRI: After thorough discussions among the executives, we have progressively refined and upgraded the model. The logical tree-based approach was initially implemented through consulting and IT solutions businesses, but we faced challenges in organizing the cause-and-effect relationships between the various elements. After considerable effort, we have reached a point of sufficient understanding, which led to the disclosure. Moving forward, we would like to continue our discussions regarding the relationship with human capital.

Investor 11: How were the impact KPIs discussed and determined? Regarding the estimated 6.6 trillion JPY economic impact in Case 1 related to the income threshold, we would like to see a more precise calculation.

NRI: Based on the belief that growth strategy and the creation of social value are two sides of the same coin, we have translated this concept into materiality indicators that reflect the value we generate.

Regarding the income threshold estimation, there are specific components such as the increase in compensation for employees across society, additional production, and the subsequent rise in further compensation. If these details had been disclosed, it might have provided a greater sense of clarity and credibility.

Investor 12: Regarding the fulfillment of social responsibility across the entire supply chain (p. 94, p. 101), it is essential to collaborate with business partners to reduce CO2 emissions. I found it commendable that NRI is actively engaging and involving stakeholders in these efforts. While several years have passed since the initiative started, I would appreciate an update on its current status.

NRI: As for the progress update, over 60% of our business partners have established environmental goals and have begun efforts to reduce their emissions.

Regarding engagement, we recognize that each company has its circumstances. While we are steadily engaging with company presidents and sustainability officers, we are careful not to impose our approach. Instead, we are taking a long-term perspective, working to raise awareness by facilitating dialogue between companies that are making progress and those that are not yet engaged.

Furthermore, when calculated using the simplified method based on the Ministry of the Environment's guidelines, Scope 3 figures may temporarily appear to increase as business activities grow. To ensure that reduction efforts are properly reflected, we intend to review and improve the calculation methods.

These efforts will not immediately lead to Scope 3 emission reductions. Without broader societal momentum and the establishment of national-level codes and frameworks, accelerating progress will remain a challenge.

Investor 13: Since integrated reports are not bound to a specific format, we closely observe what each company chooses to include. While most companies provide limited disclosure regarding their challenges, we would appreciate a more candid and transparent approach in this area.

NRI: We would like to consider this when preparing the integrated report for the subsequent fiscal years.

End.